

PNC Currency Review, December 2021

Prior Quarter

September 2021 – November 2021

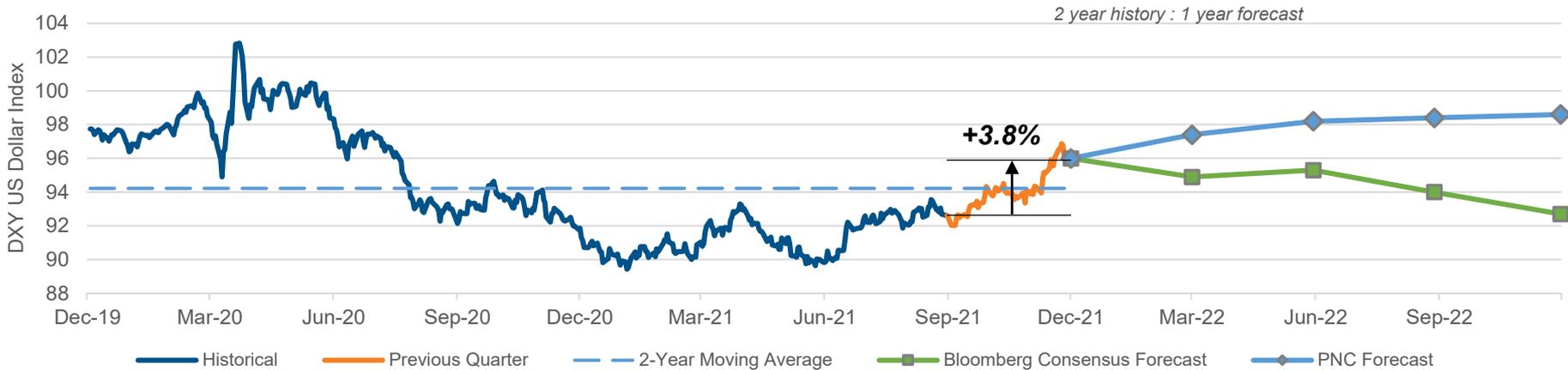


Summary

DXY Major Currencies Dollar Index



The dollar appreciated 3.8% on net in the September-to-November quarter of 2021.



Previous Quarter Recap

- The DXY dollar index jumped 3.8% in the September-to-November quarter as the Federal Reserve began to taper its quantitative easing program.
- The DXY index pulled back in early September as the global Delta wave worsened, then rose again through quarter-end as markets pulled forward expectations for when the Fed would begin to raise interest rates.

Currency Outlook

- PNC forecasts for continued but slower appreciation of the dollar over the forecast horizon; the consensus forecast sees the dollar somewhat weaker.
- If the Omicron coronavirus variant causes new restrictions on global activity, the dollar will likely be stronger than forecast.

Currency Update

Euro



The euro depreciated 4.2% on net in the September-to-November quarter of 2021.



Previous Quarter Recap

- The euro depreciated a net 4.2% in the September-to-November quarter. The Fed began tapering its QE program in the quarter and warned they could raise rates earlier than expected if inflation stayed high, supporting a stronger dollar. The ECB has begun tapering its pandemic-era QE programs but the pre-pandemic programs will continue considerably longer.
- The prospect of higher short-term U.S. interest rates next year, in contrast to continued negative euro rates, weighed on the euro.

Currency Outlook

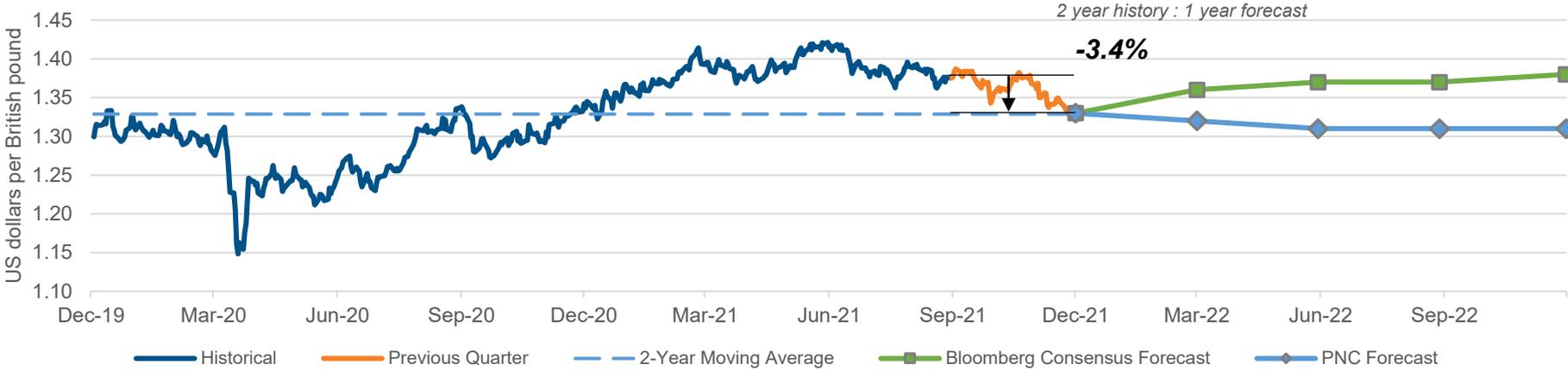
- PNC forecasts for the euro to continue to depreciate over the forecast horizon, while the consensus sees a modest recovery.
- If there is another major global shock, either from the pandemic or an unrelated cause, the euro could be weaker than forecasted.

Currency Update

Great British Pound



Pound sterling dropped 3.4% in the trailing quarter as the costs of Brexit became more tangible.



Previous Quarter Recap

- Pound sterling depreciated 3.4% over the trailing quarter as UK-EU tensions over trade across the Irish border resurfaced, shortages of immigrant labor caused gasoline shortages, and natural gas prices spiked ahead of the winter heating season.
- The Fed signaled in the trailing quarter that they could raise rates faster than expected if inflation persists at high levels, further contributing to a stronger dollar and weaker pound sterling.

Currency Outlook

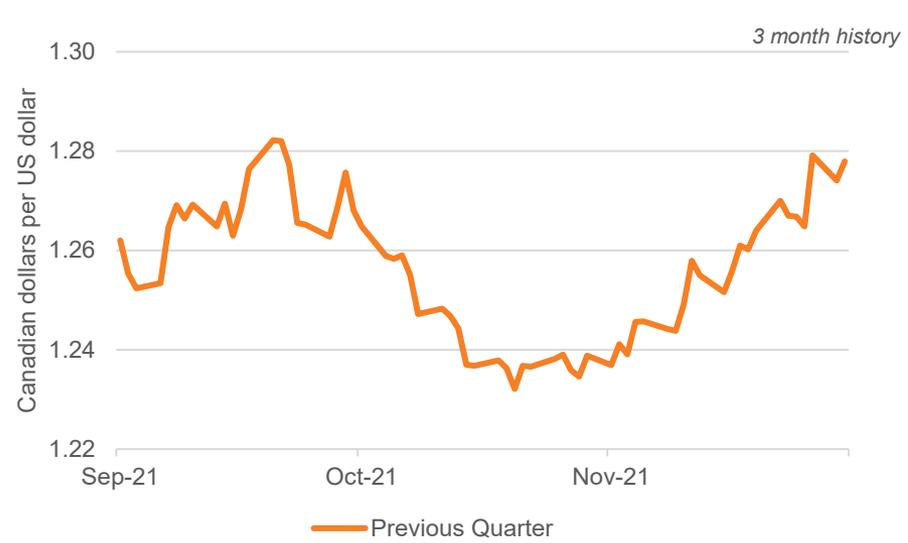
- PNC forecasts for the pound to hold at its now-lower level as the Fed begins to normalize U.S. monetary policy; the consensus forecast anticipates modest pound appreciation.
- If there is another major global shock, either from the pandemic, UK-EU economic frictions, a British energy crisis, or other causes, pound sterling would likely be weaker than forecasted.

Currency Update

Canadian Dollar



The Canadian dollar depreciated 1.3% on net in the September-to-November quarter of 2021.



Previous Quarter Recap

- The Canadian dollar appreciated to a four-month high in late October amid high energy prices, improving domestic fundamentals and a hawkish Bank of Canada. The Canadian dollar then gave back some gains as energy prices dropped. Western Canadian Select plunged 37.9% in November.
- The Bank of Canada ended its quantitative easing program and pulled forward when they expect to start raising the policy rate at their October 27 meeting.

Currency Outlook

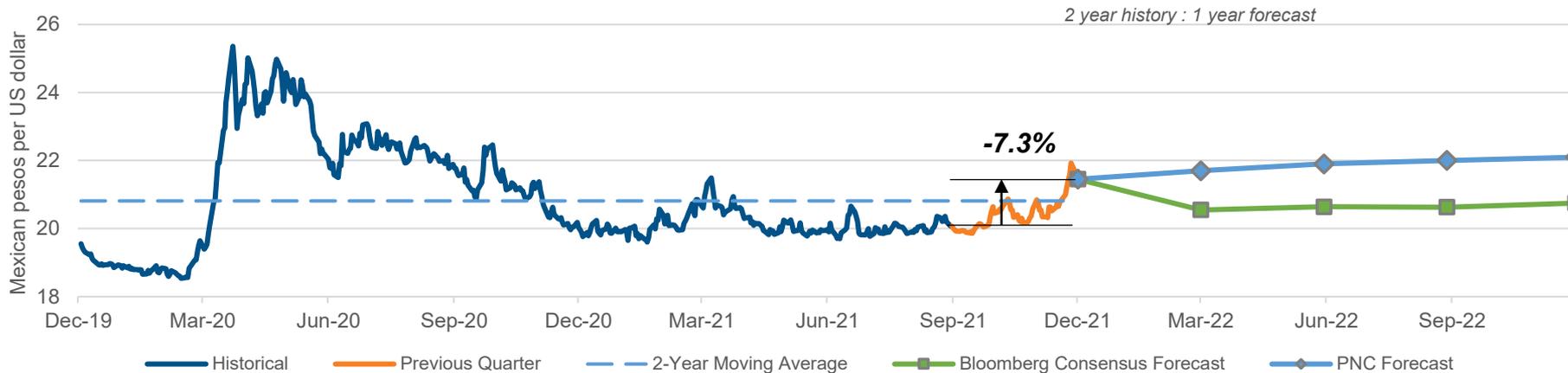
- PNC expects the Canadian dollar to depreciate modestly over the forecast horizon as the Fed begins to taper its QE program; the consensus forecast anticipates some appreciation.
- If the Bank of Canada increases its policy rate faster than financial markets anticipate, the Canadian dollar is likely to be stronger than forecasted.

Currency Update

Mexican Peso



The peso plunged 7.3% to a year-to-date low in the September-to-November quarter.



Previous Quarter Recap

- The Mexican peso plunged 7.3% in the September-to-November quarter. Mexico's President surprised markets by appointing a relatively unknown loyalist with thin monetary policy credentials to lead the Bank of Mexico.
- The Federal Reserve signaled they were pulling forward plans to withdraw monetary stimulus, also contributing to a weaker peso.

Currency Outlook

- PNC forecasts for the peso to hold its new weaker level over the next few quarters while the consensus forecast is for the peso to be flat to slightly stronger.
- PNC forecasts for the Federal Reserve to begin raising interest rates in the second half of 2022; this, as well as Mexico's domestic economic challenges, are downside risks to the peso.

Currency Update

Japanese Yen



The yen fell 2.9% in the September-to-November quarter of 2021.



Previous Quarter Recap

- The yen dropped 2.9% in the September-to-November quarter of 2021. It was little changed through late September, then plunged as the Fed signaled that they were about to begin tapering their quantitative easing program, which they did in November.
- Inflation in Japan was still near zero in October, making the Bank of Japan unlikely to taper its quantitative easing program in 2022 or 2023. The divergence between U.S. and Japanese monetary policy fueled the yen's depreciation during the quarter.

Currency Outlook

- PNC and the consensus forecast both expect the yen to depreciate modestly in coming quarters.
- If the U.S. recovery proceeds faster than forecast or U.S. inflation stays high longer than forecast, U.S. interest rates will likely surprise to the upside and the yen be weaker than forecasted.

Currency Update

Chinese Renminbi



The renminbi appreciated 1.3% in the September-to-November quarter of 2021.



Previous Quarter Recap

- The renminbi appreciated 1.3% in the September-to-November quarter. China's economy faced several negative shocks in the quarter: Lockdowns to fight the Delta wave; regulations that hurt the profitability of Chinese tech and tutoring companies; a housing downturn; and electrical power rationing.
- China's central bank limited exchange rate fluctuations during the quarter to prevent renminbi depreciation from further worsening sentiment toward Chinese capital markets.

Currency Outlook

- PNC forecasts for the renminbi to depreciate over the forecast horizon; the consensus anticipates little net change.
- The global economic recovery is an upside risk to the renminbi, while the tightening of U.S. monetary policy and potential trade or geopolitical tensions are downside risks.

Currency Update

Australian Dollar



The Australian dollar depreciated 3.2% on net in the September-to-November quarter of 2021.



Previous Quarter Recap

- The Australian dollar appreciated to a four-month high in October, then plunged in November as the Reserve Bank of Australia maintained a firmly dovish stance, commodity prices tumbled, and economic data disappointed.
- The RBA reiterated in November that they are unlikely to raise interest rates before 2024.

Currency Outlook

- PNC anticipates the Australian dollar to stay relatively unchanged over the next few quarters, while the consensus forecast expects some appreciation of the currency.
- If the Fed raises interest rates faster than markets anticipate, or economic conditions deteriorate in Australia, the Australian dollar is likely to be weaker than forecasted.

Currency Update

New Zealand Dollar



The New Zealand dollar depreciated 3.5% on net in the September-to-November quarter of 2021.



Previous Quarter Recap

- The New Zealand dollar appreciated briefly to 72 U.S. cents per New Zealand dollar, a four-month high, in October, as lockdown measures were lifted.
- Slower Chinese economic growth, the tapering announcement by the Fed, and a dovish hike by the Reserve Bank of New Zealand all weighed on the New Zealand dollar in November.

Currency Outlook

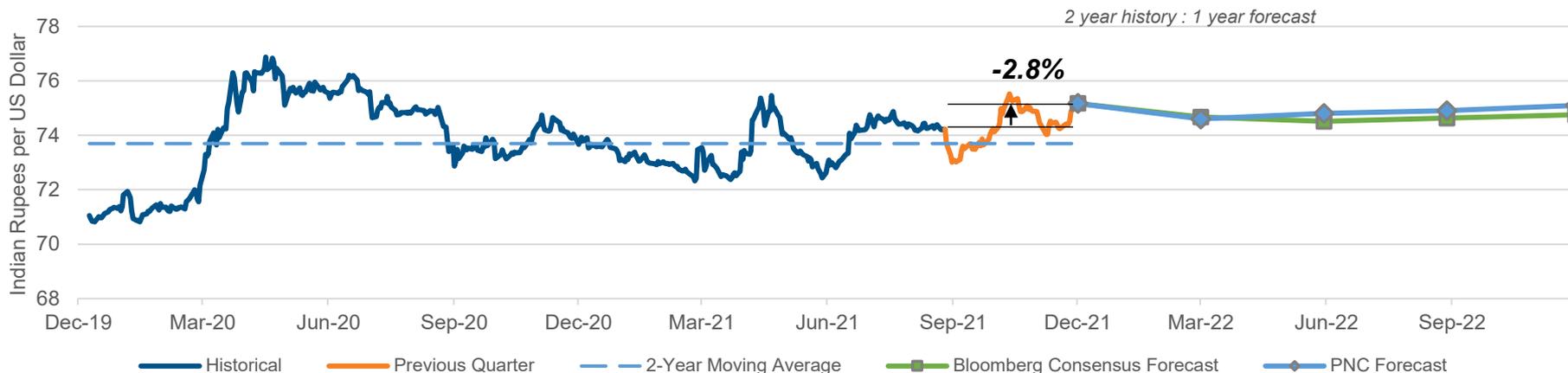
- PNC anticipates the New Zealand dollar to remain relatively unchanged over the next few quarters, while the consensus forecast anticipates some appreciation.
- If China's economic growth slows further, or the Fed raises interest rates faster than markets anticipate, the New Zealand dollar is likely to be weaker than forecasted.

Currency Update

Indian Rupee



The Indian rupee depreciated 2.8% on net in the September-to-November quarter of 2021.



Previous Quarter Recap

- The rupee fell in October to the lowest level since June 2020 as energy prices surged; India is a net importer of oil.
- The tapering announcement by the Fed in November and increased bets on an early initial interest rate hike in the U.S. also weighed on the rupee.
- Softer manufacturing data from China, India's largest trading partner, further contributed to a weaker rupee.

Currency Outlook

- PNC and the consensus forecast both anticipate for the Indian rupee to hold mostly steady over the next few quarters.
- If Chinese economic data continue to disappoint, or the Fed raises interest rates faster than markets anticipate, the Indian rupee is likely to be weaker than forecasted.

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